

# Globalisation and Poverty: How can Global Value Chain Research Inform the Policy Debate?

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## 1 Introduction

Globalisation and its relationship to poverty reduction is a subject of intense debate among academics, policy actors and street protestors. Globalisation can be understood as the lowering of transaction costs associated with the international movement of goods, capital, information, culture and (to a lesser extent) labour. A central plank of economic globalisation has been trade liberalisation. This has facilitated complex patterns of global production of goods and services and transformed local markets into global trading arenas. Those who argue that such processes work to reduce poverty state that trade liberalisation and foreign investment enhance efficiency, lower costs, provide access to know-how, and promote growth, thereby raising incomes for the poor (Dollar and Kraay 2000). Thus, a recent World Bank report argued that countries that reduced trade barriers and integrated effectively into the global trading economy also experienced substantial improvements in exports and economic growth (World Bank 2002: 32–39). Among the “globaphiles” dominating the Bretton Woods institutions, making markets work more efficiently through macroeconomic, trade and regulatory reforms is seen as the key policy instrument for fast-track economic growth. The success of many East Asian economies are often cited as examples of the potential gains of adopting such economic strategies (World Bank 1993).

While the economic logic of the “market-oriented” globaphiles can be strong, the evidence on the ground, according to many critics, is less persuasive. Strong arguments are put forward by those more sceptical of the inherent benefits of

globalisation, that globalisation has resulted in sharply disparate gains across countries (Milanovic 2003). The share of global trade accounted for by the least developed countries fell from 0.8 per cent in 1980 to 0.4 per cent by 2000. Moreover, while the East Asia region, and especially China, has been successful in engaging through trade in the global economy, much of sub-Saharan Africa has been left out. In addition, many of the Asian success stories were either displaying significant levels of growth prior to engaging in a reform process, or maintained considerable protective trade barriers while expanding their exports (Rodrik 2001).

Discussions on the link between globalisation and poverty have largely concentrated on the macro evidence, drawing on country comparative data. There have been, at best, only limited attempts to bring meso (sectoral) and micro (firm, workers and household) level evidence to the debate. This article seeks to address that gap. It draws on findings from various studies undertaken by a project that examined the link between globalised production systems and local employment and poverty impacts. This focused on the export-oriented horticulture, garments and textiles industries in two Asian (Bangladesh and Vietnam) and two African (Kenya and South Africa) countries. The studies use a common conceptual framework in global value chain (GVC) analysis.

A key feature of globalisation is the increasingly complex networks of global suppliers who produce in dispersed locations to the exacting demands of global lead firms. The GVC model focuses on the nature of relationships within such networks. The GVC framework provides a handle on assessing the power of lead firms in structuring the chain, and

the consequences of this for the autonomy of other actors in the chain to upgrade (Humphrey and Schmitz 2002). Thus, by problematising the linkage effects in the global economy and emphasising governance, it shows how globalisation affects not only incomes, but also upgrading opportunities in developing countries.

To date, the GVC model has concentrated on the ties between global lead firms (both producers and retailers) and their globally dispersed suppliers. The studies on which this article draws reflect recent attempts to extend the GVC model to employment, incomes and poverty considerations by assessing the impact of engagement in global trade, through global value chains, on local workers. The use of this methodology enables:

- an analysis of whether engagement in global value chains deliver pro-poor outcomes – not only in terms of income gains, but also with respect to employment stability, income security and working conditions;
- an understanding of the impact on workers in developing countries of global trends in value chain organisation, including retail concentration and the increasing importance of product, labour and environmental standards; and
- an examination of the circumstances that generate winners and losers from trade liberalisation.

This leads to the following subsidiary questions:

- Are workers engaged in global value chains better off than similar workers engaged in non-traded activities?
- How are the gains from engagement in global value chains differentiated by different categories of workers, and what does this imply for poverty?
- Can the GVC framework help identify policy levers and measures that promote a pro-poor development strategy?

In addressing these questions, the next section considers the conceptual links between globalisation and poverty. Section 3 provides an overview of how GVCs in the three sectors that this article reports on are structured and the nature of global challenges that they face. Section 4 presents the evidence on the gains from engagement in GVCs for workers, and the winners and losers among workers (and firms) from the process of confronting global

challenges and the changes on the structure of the chain. Section 5 considers the policy implications that global value chains analysis provides for debates on poverty and Section 6 concludes.

## 2 Global value chains and poverty

Poverty has traditionally been measured on the basis of an individual, or a household's, level of income and material possession of assets. This determines the ability of the individual or household to purchase goods and services that allow them to subsist above a predetermined poverty line. This, "narrow", income-consumption understanding of poverty has begun to be challenged by the need to incorporate into poverty measures further concerns on vulnerability, risks and the social dimensions of poverty such as health, longevity and education. This implies a stronger focus on particular categories of marginalised and poor people, from the landless to women, the elderly and minorities. In addition to incorporating Sen's (1999) notion of capabilities and entitlements into poverty assessments, new, more participatory, tools have also been brought into the measurement of poverty (Norton *et al.* 2001). While a full discussion of these developments in the poverty literature fall outside the scope of this article, they underline the need to consider wider aspects of poverty in assessing the gains from insertion into GVCs.

The GVC model maps the distinct groups of firms within a chain, and the types of workers engaged within them. This allows us to consider the impacts of engagement in global markets on particular categories of firms, especially vulnerable producers such as small enterprises and informal producers, and particular groups of vulnerable or poor workers, such as women, children and the elderly, migrants and workers from ethnic minorities. Such workers often face more acute levels of poverty and/or are more at risk of falling into poverty due to their poorer level of entitlements. Thus, a value chain mapping can help identify "poverty nodes", namely groups of poor and vulnerable workers, within the chain. And, by providing a dynamic perspective, through the emphasis that the GVC model puts on upgrading and its consequences for the organisation of chains, the model can give a sense of the risks and vulnerabilities, as well as potential gains that developments within the chain can have for distinct groups of workers.

### 3 Global value chains in horticulture, garments and textiles: key challenges

The global garments, textiles and horticulture sectors provide ideal contexts for analysing the links between globalisation and poverty. First, these sectors (with the partial exception of textile manufacturing) are particularly significant for poverty considerations. They tend to be associated with labour-intensive patterns of production. In addition, they provide important avenues of employment for low-skilled, especially women, workers. In urban areas many of the women garment and horticulture pack-house workers are migrants from poorer rural regions. In rural areas, export horticulture can generate significant employment for unskilled landless workers, especially through casual and seasonal work. Garments and horticulture are also known for the presence of informal enterprises and homeworkers (garments) as well as for small landholders (horticulture). Where such producers are able to insert themselves into the export chains, income gains can be substantial. Thus, the potential for generating poverty-reducing employment and incomes can be significant.

For some of our case study countries, these sectors are especially critical. With total exports of over US\$5 billion, garments account for three-quarters of Bangladesh's manufactured exports, and for some 75 per cent of the manufacturing labour force. At least 70 per cent of the workers in the Bangladeshi garment industry are women, and the bulk of these are migrants from poorer rural areas (Kabeer and Mahmud 2004). Similarly, export horticulture, which is said to be the fastest growing component of agricultural trade in the past decade (Humphrey *et al.* 2004), has emerged as one of the critical export growth sectors for parts of sub-Saharan Africa. In Kenya, where over half the population fell below the poverty line in the late 1990s, and where rural poverty was particularly acute, exports of fresh vegetables rose by over 200 per cent in value terms between 1993 and 1999, to become by 2000 the country's 'third largest source of foreign exchange' earnings (Dolan and Sutherland 2003: 6). With its relationship to rural agriculture and its potential for creating employment for rural unskilled, and often landless, labour the export horticulture sector offers important potential poverty gains.

Second, the garments, textiles and horticulture industries are highly globally integrated, with global production and distribution increasingly organised and controlled by leading international buyers and retailers (such as the UK supermarkets in horticulture, and leading branded garment retailers). Insertion into GVCs facilitates access of many developing country firms to global markets, often enabling their rapid growth.

Third, the other side of trade liberalisation is the opening of the domestic market to imported goods and services. This poses challenges to formerly heavily protected industries. Textiles are one example of a classic import-substitution industrial strategy. With trade liberalisation less efficient textile producers (and textile workers) risk being squeezed in the face of import competition and require complex adjustments in order to switch to external markets.

Fourth, the global horticulture, garments and textile sectors face significant challenges that can have substantial impacts on local firms and workers. A significant set of challenges come from changes in global regulatory frameworks – such as changes in global trade regimes. Thus, the phase-out in January 2005 of the Multifibre Arrangement (MFA), which governs global trade in clothing – one of the world's most trade-regulated industries, will potentially transform the international landscape in production and trade of clothing and textiles. One aspect of this is the threat posed by China to other developing country garment and textile producers. China, while facing the most severe trade constraints under the MFA, is the world's largest exporter of clothing with an 18 per cent share of the global apparel trade. In the EU and USA, where it faces quota constraints, China is the largest and second largest supplier with market shares of 10 and 13 per cent respectively. In Japan, the world's third largest market for clothing and the most unregulated in terms of MFA quota constraints, China as the leading supplier has a market share of 75 per cent (Nadvi and Thoburn 2004a,b). In other words, exporters face a difficult and changing external environment that has important consequences for their ability to sell into global markets.

Fifth, the complexities of the external environment are increased by the need for compliance with global standards on issues such as health and safety, quality management, labour

practices, ethical and environmental concerns. Meeting such standards is considered increasingly necessary to enter into global value chains in textiles, garments and horticulture. In horticulture, local farms and processing units must meet specific standards regarding food safety (Hazard Analysis and Critical Control Points – HACCP) and agricultural practices (the Good Agricultural Practice standard adopted by the Eurep group of European fresh produce importers and retailers – EUREP-GAP) and conform to the detailed traceability requirements of branded supermarkets.<sup>1</sup> Similarly, garment and horticulture firms must also comply with their buyer's company codes of conduct on labour practices. The pressures on compliance emanate in part from the lead firm's need to minimise risks to its brand identity from public exposures of failures to meet acceptable norms and practices. Standards are also seen by some lead firms as one way to differentiate products and earn rents. It is also apparent that compliance with labour and environmental standards is increasingly being incorporated into the formulation of new trade agreements (see Abrami 2003 on the US–Cambodia Free Trade Agreement).

Finally, competitive challenges emanate from the structure and organisation of global value chains. Changes in manufacturing and retailing structures in advanced countries have a direct impact on producers in developing countries. In horticulture, suppliers have to deal with a few buyers given the heavy degree of concentration at the retail end of the chain, especially in the UK. The top six supermarkets in the UK command three-quarters of total sales in fresh fruit and vegetables (Humphrey *et al.* 2004). As the retail end of the chain consolidates, competition among supermarkets has led to tighter organisation of the chain. Product innovation, enhanced product variation, improved quality, faster delivery to market and higher levels of consumer safety through traceability standards has meant that developing country horticulture producers are required to take on new tasks by their buyers. This includes storing, preparing, processing, packaging and bar coding of individual vegetables, as well as combinations of vegetables from distinct countries and regions, in strict conformance with regulatory standards on food safety in country, logistics, air freight and in some cases even distribution. Hence, supermarkets now work with fewer, but

more tightly integrated, preferred suppliers (Dolan and Humphrey 2000).

In garments, the degree of retail concentration is less severe, but shifting patterns of competition among distinct categories of retailers imply new pressures on local producers, and consequently workers (Gereffi 1999). Traditional branded garment retailers are finding their market shares challenged by newer, more fashion-conscious and more price-sensitive garment retailers. The development of own labels, as in food retailing, has also raised competition for brand retailers. In addition, the growing significance of supermarkets and discount stores in garment retailing underline the need to manage costs, while pressures from specialist garment multiples has led to shorter fashion seasons and more rapid turnaround of shelf stock. Global garment retailers now seek to consolidate their supply base, working with fewer first tier suppliers who manage production facilities in numerous countries and locations and take on more functions of chain management.

The global garments, textiles and horticulture sectors face a common set of global challenges at the level of changing trade rules (both public and private) and new competitive pressures driven by the chain leaders. In response, local producers must produce faster and reduce delivery times, they must maintain ever-more stringent quality standards and comply with labour and other regulatory norms, they must undertake more and more functions within the chain (from production to packaging, and logistics) and they must do all of this while reducing the prices of their end product. This calls for greater labour productivity, enhanced efficiency, and an improvement in skills and functions that local producers undertake. Confronting such challenges requires upgrading, at the level of the country sector, the local firm, and workers. Upgrading also has differentiated and dynamic consequences amongst firms and workers, with potential winners and losers. The next section examines the evidence on the gains from globalisation for particular categories of workers within these industries. This is done through case studies from countries where these sectors account for a substantial element of export manufacture, as well as across countries that as part of the process of globalisation are undergoing significant internal trade and industrial policy reforms.

#### 4 Who wins, who loses? Globalisation and the gains to workers

Does insertion into global value chains deliver pro-poor outcomes? This section considers the evidence from the value chain studies on garments in Vietnam and Bangladesh, textiles in Vietnam and South Africa and horticulture in Kenya and South Africa. It assesses whether engagement in export manufacture leads to gains for labour. It considers the extent to which these gains are vulnerable to the competitive challenges within these industries, as specified in the previous section. And it evaluates the nature of differentiation of such gains between different categories of workers. Do particular groups of workers do better than others and what does this imply for poverty concerns within the chain?

The findings from the case studies clearly show that engagement in global markets through GVCs can deliver significant employment and income gains. Kabeer and Mahmud (2004) argue that export garment production generated 1.6 million “new” jobs in Bangladesh, most of which were captured by women. Nadvi and Thoburn (2004a) report that employment in Vietnam’s garment industry rose by 132 per cent during the 1990s to nearly 320,000 in 1999. Humphrey *et al.* (2004) estimate that Kenya’s export horticulture directly generated employment for just under 100,000 persons. It is only in the textiles sector, where import liberalisation led to severe pressures on textile firms in both Vietnam and South Africa, that globalisation processes resulted in declines in employment. In Vietnam, textile employment fell by 30 per cent during the 1990s as a whole, in large measure due to the restructuring of state-owned enterprises that dominate Vietnam’s textile industry (Nadvi and Thoburn 2004a). Similarly, employment in South African textile manufacture fell sharply in the latter part of the 1990s (Roberts and Thoburn 2004).

In addition to employment gains there is evidence of income gains for workers engaged in the GVCs. The evidence from the Kenyan horticulture study (McCulloch and Ota 2002) and the garment workers’ study in both Bangladesh and Vietnam (Kabeer and Mahmud 2004; Kabeer and Tran 2003) emphasise that wage levels for workers engaged in the export garment sectors were generally higher than those found for similar types of workers in non-internationally traded activities.

In Kenya, median incomes for horticulture pack-house workers were some 60 per cent higher than those of their neighbours who were not employed in export horticulture pack-houses. Similarly, horticulture smallholders had median incomes almost six times those of non-horticulture smallholders, while contract farm workers also earned substantially more than non-horticulture smallholders (McCulloch and Ota 2002: 17). In Bangladesh, wage levels for garment workers were double that of other non-traded wage workers (Kabeer and Mahmud 2004). In Vietnam, Kabeer and Tran found that among the most marginalised segments of the women’s urban labour force in Hanoi or Ho Chi Minh City, namely migrants with no legal residential status, those employed in garment manufacture were ‘likely to be better-off [than similar workers in non-traded sectors] ... in the sense that they earn higher wages for roughly similar working hours and they enjoy higher levels of social protection’ (2003: 17–18).

While workers engaged in traded activities tend to do better in terms of incomes than similar workers in non-traded sectors, the benefits vary according to *where* a worker lies within the value chain. Workers involved either in higher value-added activities, or employed by firms that supply to higher ends of the chain, fare better than workers further down the export chain. In Kenyan export horticulture pack-houses, workers who undertake the higher value-added tasks involved in preparing, processing and packaging vegetables earn significantly higher mean incomes than waged workers on farms either owned by the leading Kenyan export horticulture companies or on farms that work on a contract basis for such horticulture exporters (McCulloch and Ota 2002). In Bangladesh, garment workers in the export processing zones (EPZ), where export units were either foreign owned and/or were manufacturing for high value branded retailers, average wage levels were some 70 per cent higher than those prevailing in non-EPZ garment units (Kabeer and Mahmud 2004). Similarly, Vietnamese garment workers employed in joint venture units (with significant foreign investment) and state-owned enterprises (SOEs) earned higher average wages than those in the private, small-scale and cooperative sectors of garment production (Kabeer and Tran 2003: 14; Nadvi and Thoburn 2004a).

As with incomes, working conditions parallel

what is seen in the employment hierarchies. Conditions and employment practises are better in horticulture export pack-houses and in larger garments and textiles firms (especially Bangladeshi EPZ units and Vietnamese SOEs). Moreover, workers in pack-houses or in large garment firms are more likely to have better and more formalised employment contracts. Thus, Kabeer and Mahmud (2004) found that over 60 per cent of garment EPZ workers in Bangladesh had formal labour contracts compared to only 10 per cent of other garment workers. Yet, a key concern at all levels of employment and in both garments and horticulture was on numbers of hours worked.

There were clear gender differences in wages and employment conditions. Although women accounted for over 60 per cent of the workforce in the Kenyan fresh vegetable pack-houses and farms sampled by Dolan and Sutherland (2003), average wages in Kenyan export horticulture were higher for male workers. This was explained by a gendered division of labour within the industry with women workers being concentrated 'in "unskilled" categories of work (i.e. harvesting, packing, grading and sorting), which are less well remunerated' (Dolan and Sutherland 2003: 22). Barrientos and Kritzing (2004) also found a sharp gender division in wage levels and employment contracts between men and women in the South African export horticulture sector. Male workers earned higher wages as permanent or contract farm workers compared to women workers in similar positions, and obtained employment for longer periods of time than women workers. Moreover, male workers were also likely to be engaged in higher skilled tasks. Similarly, Nguyen *et al.* (2003) found wage levels to be higher for male textile workers in Vietnam, with sharply gender-divided jobs. Women workers tended to be concentrated in weaving, spinning and knitting activities while male workers were engaged in a wider range of technical and mechanical jobs. A key implication of this, for a sector where labour retrenchment is significant, is that men's jobs were not only considered more skilled but also more easily transferable to other sectors (Nguyen *et al.* 2003: 9).

While insertion into export value chains in garments and horticulture has led to important employment and income gains for workers in Bangladesh, Vietnam, South Africa and Kenya, the competitive challenges within the global chains

clearly affect the nature and sustainability of such gains. Consolidation amongst retailers, more stringent demands on quality assurance, health and labour standards and price pressures from new competitors has led to lead firms demanding lower prices, higher quality and faster turnaround from their suppliers. Suppliers also find that they have to undertake more of the less profitable tasks within the chain as lead firms push these functions down. One aspect of these pressures from lead firms to their suppliers is the need for more flexible patterns of employment. This has important consequences for workers.

Global value chain pressures are thus associated with increasing casualisation of labour and excessive hours of work. To save on wage costs, employers are reducing their reliance on permanent workers, who (at least technically) enjoy statutory rights on employment security, paid holidays and unemployment benefits. In search of more flexible labour arrangements, there is a growing use of casual and seasonal contract labour in both export horticulture and in export garments. This is particularly seen in the South African fruit export and Kenyan fresh vegetable export sectors, both amongst farms as well as in pack-houses (Kritzing *et al.* 2004; Dolan and Sutherland 2003). Contract labour is a significant form of labour organisation in the Bangladesh export garment industry. Contract labour is also emerging in the small and medium private sector garment firms in Vietnam, while the on-going restructuring of Vietnamese SOEs involves the erosion of a number of non-wage benefits obtained by permanent SOE workers (Nadvi and Thoburn 2004a). Such forms of casualisation allow employers to respond to seasonal peaks in demand, to lower their wage bills by avoiding legal protection and benefits to workers who are laid off, and meet their buyers' codes of conduct and stringent delivery schedules. Contract employment can have important negative implications for workers, with work being more unstable in nature, leaving workers vulnerable to sudden shifts in employment demand. It also reduces the level of social protection enjoyed by workers – ranging from pensions, sick leave, maternity leave, paid holidays to, in some cases, health benefits, transport and access to low-cost shops and low-interest loans). These impacts on local workers, arising from competitive pressures imposed by



global buyers who organise the chain, underline the call for more ethical buying practices. This does not only involve creating better employment conditions, but also changing buying practices so that order scheduling does not impose excessive overtime demands on workers.

The evidence from the case studies points to significant gains for developing country workers from insertion into global value chains. Employment levels have risen, often substantially, in many of the more labour-intensive sectors such as garments and horticulture. This has generated significant work for particular groups of poorer workers, especially women. Women, both within their communities and their households tend to have poorer entitlements to productive assets, and suffer from gender disparities in terms of access to critical resources and formal education, thereby making them especially vulnerable to poverty. Export horticulture and export garment manufacture have resulted in significant levels of new jobs for women workers.

It is also, however, clear that gender divisions of labour imply that women are less likely to obtain the technically higher skilled and better remunerated jobs. Even among women workers there are employment hierarchies. Those with higher levels of education obtain better remunerated jobs at higher points in the chain, in both garments and horticulture, than less well-educated women workers. Thus, although relatively less well-educated women, unskilled and migrant workers benefit from employment in GVCs, they are especially vulnerable to changes in employment patterns that have led to a greater reliance on casualised labour. At its most acute this leads to the displacement of labour – either as a consequence of process upgrading that involves the use of new labour-displacing technologies, or through the squeezing out of inefficient enterprises. This is seen most clearly in the South African textile and horticulture industries. In both the South African horticulture and textile industries, the position of retrenched workers was often the worst of all forms of workers. Many such workers fell below the poverty line, lived in abjectly poor housing condition, were unable to access work and were thus extremely vulnerable, especially given South Africa's high levels of unemployment (Bezuidenhout *et al.* 2003; Barrientos and Kritzing 2004)

## 5 Globalisation and poverty – what can global value chains add to policy?

The range of GVC studies makes it apparent that insertion into export manufacture through global value chains can generate significant employment for poor workers. It is less clear whether such workers are amongst the “poorest”. Household income levels for workers in horticulture, textiles and garments in each of the four case study countries placed them well above the respective country-specific poverty lines. Yet, engagement in export production helped raise many such households above the poverty line (McCulloch and Ota 2002) and generate significant gains for the very poor through migration and remittance impacts. The key question, therefore, is would such workers and their households be below the poverty line if they were not engaged in export value chains? Thus, the integration of producers into global value chains has important policy lessons for strategies for pro-poor development. This section considers some of these lessons, not only in terms of developing country strategy, but also with respect to the impact of developed country policies and enterprise strategies.

Across each of the value chains studied, important common tendencies were observed. First, there was increasing concentration among global buyers as a result of concentration in the retail sectors in Europe and North America and changes in buying practices. Second, there is an increasing concern with labels, codes and standards – related to technical product standards, quality, social standards and environmental impact – created by firms, by sectoral associations, by international organisations and by governments (Nadvi and Waltring 2004). Third, across a range of value chains, there is increased emphasis on the “service aspects” of product supply, including delivery times, reliability of delivery, quality systems and traceability. Developing country firms have to comply with an increasingly complex requirements and to demonstrate this compliance.

These changes have important consequences. For developing countries, these developments increase the importance of the export infrastructure. The physical export infrastructure and the bureaucratic infrastructure have to facilitate an increasingly rapid response to orders from global buyers. For example, a key challenge in the future for Bangladesh's garment

industry is to reduce its delivery times from a current average of 90 days to something closer to the 30–45 days that prevails within the East Asian region. The bottleneck for this does not lie with garment producers, but with the country's poor port and infrastructure in Chittagong, which delay imports of fabrics and exports of clothing.

Related to this is the infrastructure for compliance with standards. As standards become more important in global markets, then standards systems in developing countries can become a source of competitive advantage. The effective provision of measurement and testing services are particularly important for developing country producers and exporters, as they enable not only the compliance with technical standards, but also the demonstration of this compliance.<sup>2</sup> The same issue arises with the cost-effective and regulated provision of certification services. Nadvi (2004) has shown how market provisioning of standards certification can be rapid, reducing costs to firms being certified, but that without effective regulation of certification it can undermine the impact of compliance.

The analysis also points to the importance of policies in developed countries. Increasing retail concentration not only poses a set of distinct challenges to producers and workers further down the chain, but it also allows a degree of policy leverage over global buyers. There are two very immediate and connected sets of policy concerns that arise from this for pro-poor development.

- First is the need to consider buyers as developmental actors and not just purely commercial players. This involves encouraging buyers (or retailers) to use their developmental functions as part of their competitive strategies. Some global lead firms have begun to use their codes of conduct as one way to differentiate themselves from their competitors. Another idea is that of the UK's Ethical Trade Initiative (ETI) which brings together many of the UK's leading retailers (especially in garments and food) alongside NGOs and trade unions to improve compliance with core International Labour Office (ILO) labour standards within their supply chains. This initiative is based on the close linkages that global buyers have with their suppliers and consequently their ability to influence employment and working conditions at the suppliers.

- Second is the need to go beyond current concerns among buyers regarding labour and ethical codes. Codes of conduct have yet to address issues of buying practices of lead firms and their consequences not just for developing country suppliers, but also for workers and their livelihoods. Thus, a strategy that encourages firms to move away from buying practices that actively promote the casualisation of work, thereby raising the vulnerability of particular groups of workers, that lead to excessive hours of work and that cause greater poverty concerns, needs to be promoted. Similarly, buyers need to be aware of the potential “costs of standards”, in terms of exclusion of particular groups of workers and increasing cost to local producers.

A policy focus on leveraging key actors within the chain should not, however, obscure the importance of local policy and local agency. This is important in two areas. First, as global buyers become more demanding, they expect suppliers to be able to meet these demands. While buyers may provide support to suppliers, the suppliers themselves need to work hard to upgrade, acquire new skills and new know-how and take on higher value-added functions. Local policy and local agency remains important in enterprise development.

Second, the global value chain perspective implies that trade capacity building initiatives, and particularly those aimed at promoting the capacity of developing country firms to enter global markets, need to take into account the ways in which trade is organised. On the one hand, the analysis of export markets that often form the starting point for trade promotion interventions need to focus more specifically on the requirements of different segments of export markets. In the case of fresh fruit and vegetables, for example, the requirements of supermarkets in Northern Europe are very different to those of wholesale markets and (as yet) of buyers in southern Europe. On the other hand, the targeting of markets can be adjusted to the capabilities of the suppliers. Where producer capabilities and market structures make it difficult to comply with the quality and traceability requirements of leading global buyers, export promotion strategies can be targeted at smaller buyers and less demanding markets, including regional markets.

Finally, it should be recognised that the



increasingly complex requirements of global markets and the need for firm level capabilities, specialist services and infrastructure to meet them increase the economies of agglomeration in developing countries. For example, when speed of delivery is important, the frequency and speed of shipping services becomes important, and this is closely related to the overall level of exports. The same applies for the provision of specialist support services. Thus, obtaining the types of agglomeration economies that attract global buyers requires the presence of public and private specialised business and technical services that provide the capacity for local producers to enhance their activities, to acquire new skills and know-how and to improve local capabilities.

## 6 Conclusion

This article set out to review the link between globalisation and poverty. It did so by focusing on global value chains. Until now most value chain studies have concentrated on the ties between global buyers and local suppliers, without considering the implication of this relationship on labour. Revisiting the value chain model with a stronger poverty and labour focus shows how insertion into GVCs, and the dynamic processes that ensue within the chain, can have important pro-poor implications. The broad findings from the respective GVC studies in

garments, horticulture and textiles, point to significant employment and income gains to workers, especially women workers, from export manufacture. Such workers inserted into GVCs fare better than workers from similar backgrounds engaged in the domestic non-traded economy. However, gains to labour in GVCs are highly differentiated by distinct categories of workers and by location within the chain. Where workers are engaged in higher value-added activities within the chain, or in firms that supply higher value buyers, income gains are greater and working conditions better. Often, however, employment in such points of the chain involves entry barriers, usually based on minimum levels of education. In addition, workers within GVCs, at all points, are increasingly vulnerable to changing employment contracts and the increasing casualisation of work. These developments emerge from the competitive logic of the chain where suppliers are not only more tightly integrated to their buyers, but also must enhance efficiency, lower costs, raise quality and take on more functions. The policy challenge, if one takes the view that export employment can generate pro-poor outcomes as suggested by the various case studies, is how to attract global buyers, and how to build stronger ties with them that involve an upgrading of skills and improving returns to firms and to labour.

## Notes

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1. See *IDS Policy Briefing* (issue 18: 'The cost of compliance') on global standards for further details on the standards pressures within each sector. More information about the EUREP-GAP standard can be found at [www.eurep.org](http://www.eurep.org)
2. The role of state institutions in India in developing local procedures and demonstrating compliance with EU standards for leather used in export products has been highlighted by Tewari and Pillai (2003).

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